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James W. Spurlock  
District Manager

EX PARTE OR LATE FILED

Suite 1000  
1120 20th Street, NW  
Washington, DC 20036  
202 457-3878  
FAX 202 293-1049

January 5, 1995

Mr. William F. Caton  
Secretary  
Federal Communications Commission  
1919 M Street, N.W., Room 222  
Washington, D.C. 20554

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JAN 5 1995

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

RE: Ex Parte Presentation  
CC Docket 93-197

Dear Mr. Caton:

On Thursday morning, January 5, 1995, Mr. E.E. Estey and I provided and discussed the attached document with Ms. Karen Brinkmann, Special Assistant to the Chairman, in connection with the above-captioned docket.

Two copies of this Notice are being submitted to the Secretary of the FCC in accordance with Section 1.1206(a)(1) of the Commission's rules.

Sincerely,

Attachment

cc: Ms. Karen Brinkmann (cover only)

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**E. E. Estey**  
Government Affairs Vice President

Suite 1000  
1120 20th Street, NW  
Washington, DC 20036  
202 457-3895  
FAX 202 293-1049

January 5, 1995

Karen Brinkmann  
Special Assistant  
Office of Chairman Reed E. Hundt  
Federal Communications Commission  
1919 M Street, NW, Room 814  
Washington DC 20554

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JAN 5 1995

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

Dear Karen:

In its June 1993 Notice of Proposed Rulemaking [CC Docket 93-197], the FCC called for "relatively minor modifications and improvements" to AT&T Price Cap regulation. Included in this docket is the issue of streamlined treatment for AT&T's Commercial Long Distance services.

The comment cycle closed 14 months ago; we urge you to take prompt action on commercial long distance streamlining now. To delay further would be bad economics; contrary to facts that demonstrate an intensely competitive market; and a retreat from innovative public policy making.

The foundation for this action was established in the 1991 *Interexchange Order* [90-132], when the Commission found that "(w)ith minor exception... the business services market is substantially competitive" and, as a result, it streamlined regulation of the majority of AT&T's business services. The FCC's reasoning then and now remains sound: 1) the business marketplace exhibits substantial demand and supply elasticities which limit AT&T's market power; and 2) AT&T's market share for business services is "...not incompatible with a highly competitive market."

Indeed, AT&T's market for Commercial Long Distance customers went from 54% to less than 39% over a four-year period (1987-1991) and has seen further erosion since. This is market competition at its most vigorous.

Continued price cap regulation of commercial long distance services significantly distorts AT&T's ability to respond in a competitive marketplace for the business of these customers. Any AT&T tariff filing that would seek to introduce a "new" or "restructured" service must be filed on 45 days notice, resulting in needless delay for customers and advance notice to AT&T's competitors.

January 5, 1995

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In its *Interexchange Order*, the Commission expressed early concern about this very situation. It said that AT&T was being discouraged from acting as a market "first mover." Moreover, the FCC stated, competitors remain content to be reactors because they have time to do so and still beat AT&T to market during the window caused by Price Caps' lengthy tariff notice periods. As a result, the present AT&T Price Cap regulation of commercial long distance effectively limits competitiveness in the market and thereby reduces the consumer benefits that would otherwise result.

In support of its decision to streamline AT&T Price Cap Basket 3 business services, the Commission concluded three years ago that the business long distance market exhibited demand elasticity and customers "...will switch carriers in order to obtain pricing savings and desired features." That decision now has received strong new support from two sources.

The first is the econometric study submitted in this docket by the Federal Trade Commission. It supports reform action by the FCC, and forecasts that "...with streamlined regulation, AT&T's costs of introducing new services would fall and more product variety would likely ensue."

Secondly, commercial long distance customers are speaking, and their actions are loud and clear. What better evidence of a competitive market -- one that no longer needs to tie up one competitor with Price Caps rules -- than the willingness of customers to exercise choice? The number of customers who changed their service with AT&T to an alternative plan or changed interexchange carriers now totals 1.8 million customers on an annualized basis -- or some 23% of the AT&T CLD customer base. These customers, freely exercising their choice, demonstrate the competitiveness and demand elasticity of this dynamic commercial market.

In 1991, the Commission cited the significant competitiveness of the long distance market as demonstrated by a study of the available capacity of competitors. Since then, there has been continued growth in capacity, as demonstrated by the FCC's most recent report, which shows that fiber route miles for all interexchange carriers have increased almost 20% since 1989 -- from 80,000 to about 95,000 route miles. Given these facts, the FCC's 1991 conclusion underscoring the ability of competitors to quickly absorb market share is even more compelling today.

As always, I would be happy to discuss this matter with you further. We look forward to expeditious resolution of this important docket item.

Sincerely,

EEEstey/JWS